

Message Text

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10

ACTION TRSE-00

INFO OCT-01 EA-11 ADP-00 NEA-10 IO-13 H-03 L-03 PRS-01

PA-03 USIA-12 CEA-02 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 SS-15 STR-08 OMB-01 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 RSR-01

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P 180842Z JUL 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 6690

INFO AMEMBASSY KUALA LUMPUR PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 10-30-73.

TAGS: EAID, EFIN, MY

SUBJECT: PROPOSED ADB LOAN TO MALAYSIA FOR SABAH ELECTRICITY
SUPPLY PROJECT

REF: MANILA 8024 OF 28 AUG 72

SUMMARY: ADB MANAGEMENT PROPOSES \$9.8 MILLION EQUIVALENT
LOAN FROM ORDINARY FUNDS TO SABAH ELECTRICITY BOARD TO
FINANCE FOREX COSTS OF ITS EXPANDING ELECTRICITY OUTPUT
IN KOTA KINABALU, SANDAKAN, AND LABUAN UNDER ITS
ELECTRICITY SUPPLY EXPANSION PROGRAM (1975-1977). USADB
RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC R59-73 DTD 9 JULY WITH ATTACHMENTS DES-
CRIBING PROPOSED LOAN POUCHED ADDRESSEES JULY 10. BOARD
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CONSIDERATION SCHEDULED 31 JULY.

2. ADB MANAGEMENT PROPOSING \$9.8 MILLION EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO SABAH ELECTRICITY BOARD (SEB) IN EAST MALAYSIA. PROCEEDS TO FINANCE FOREX COST SEB'S EXPANSION PLAN FOR ELECTRICITY GENERATION TO MEET DEMAND THROUGH 1975-1978 IN THREE OF SABAH'S LARGEST STATIONS. PROJECT CALLS FOR: EXTENDING POWER HOUSE AND INSTALLING TWO 7.5 DIESEL GENERATING SETS IN KOTA KINABALU (KK), CAPITAL OF SABAH; EXTENDING POWER HOUSE AND INSTALLING TWO SETS (5.0 AND 7.5 MW) IN SANDAKAN (ON EAST COAST); AND EXTENDING POWER HOUSE AND FUEL AND WATER TANKS AND INSTALLING TWO 5.0 MW SETS IN LABUAN (INDUSTRIAL CENTER ON ISLAND OFF WEST COAST). PROPOSED TERMS ARE 20 YEAR AMORTIZATION INCLUDING 5 YEAR GRACE PERIOD, 7 1/2 PERCENT INTEREST. SEB TO BE BORROWER AND EXECUTING AGENCY, AND GOVT OF MALAYSIA GUARANTOR.

3. PROJECT PREPARED BY SEB AS PART OF ITS LONG RANGE EXPANSION PLAN. SEB DETERMINED DIESEL SETS MORE ECGXQIAAL THAN STEAM PLANTS OR GAS TURBINES FOR THIS PERIOD. SEB TO APPOINT SENIOR ENGINEER ACCEPTABLE TO BANK FOR DAY-TO-DAY SUPERVISION AND EXECUTION OF THE PROJECT. SEB HAS DESIGNED AND INSTALLED WITHOUT USE OF CONSULTANTS, ITS ENTIRE GENERATION AND TRANSMISSION/DISTRIBUTION EXPANSION PROGRAM SINCE SEB FORMED IN 1957 AND BANK FEELS SEB QUALIFIED TO ASSEMBLE AND INSTALL THE DIESEL SETS IN PROPOSED PROJECT. SUCCESSFUL GENERATOR MANUFACTURER WILL BE REQUIRED TO PROVIDE SUPERVISION DURING ASSEMBLY AND INSTALLATION OF THE SETS. GENERATORS TO BE PROCURED BY INTERNATIONAL COMPETITIVE BIDDING, IN WHICH SEB IS EXPERIENCED, IN CONFORMITY WITH BANK GUIDELINES FOR PROCUREMENT, AND IN TWO BID PACKAGES, ONE FOR THREE 5.0 MW SETS AND ONE FOR THREE 7.5 MW SETS.

4. LOAN TO INCLUDE FINANCING OF INTEREST AND OTHER CHANGES DURING CONSTRUCTION BECAUSE OF STRAIN OF SEB'S EXPANSION PROGRAM ON ITS INTERNAL CASH GENERATION.

5. SEB HOPES TO MEET EXPANSION FOR KK AFTER 1978 WITH TWO 21 MW HYDROGENERATION UNITS IN FIRST STAGE OF PROPOSED LIMITED OFFICIAL USE

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TENOM-PANGI PROJECT ON THE PADAS RIVER. ADB TECHMICAL ASSISTANCE (REFTEL) IS FINANCING ASSESSMENT OF PROJECT'S TECHNICAL AND ECONOMIC FEASIBILITY, BEING DONE BY NIPPON KOEI (JAPAN). PRELIMINARY FINDINGS ARE: POTENTIAL CAPACITY OF SCHEME IS 63 MW (THREE 21 MW UNITS); AS RUN-OF-THE-RIVER SCHEME, PEAKING CAPACITY WILL DROP SUBSTANTIALLY DURING DRY SEASONS, NECESSITATING KK'S DIESEL UNITS TO REMAIN ON STANDBY AND BE AUGMENTED BY 10 MW UNIT

IN 1984; AND SCHEME ESTIMATED AT AROUND \$41 MILLION INCLUDING \$3.3 MILLION INTEREST DURING CONSTRUCTION. FIRST PHASE WOULD COST \$33.9 MILLION FOR CIVIL WORKS, POWER HOUSE, TWO 21 MW UNITS, AND TRANSMISSION LINES. CONSULTANT TO COMPLETE COST COMPARISON WITH DIESEL, STEAM, AND GAS TURBINE ENERGY SOURCES BY END-1973.

BANK BELIEVES SEB WELL RUN AND COMPETENT TO EXECUTE PROJECT. TARIFF SYSTEM CONSIDERED APPROPRIATE AT PRESENT, AND SEB HAS AGREED TO MAINTAIN TARIFFS AT LEVEL TO PRODUCE REVENUES SUFFICIENT TO COVER ALL EXPENSES, PROVIDE 1.5 DEBT SERVICE RATIO AND CONTRIBUTE REASONABLE PART OF COST OF EXPANDING SYSTEM. SEB AGREES TO UPGRADE AND EXPAND ROLE OF INTERNAL AUDITOR POSITION AND HAVE HIM REPORT DIRECTLY TO BOARD SECRETARY OR GENERAL MANAGER. SEB HAS ALSO SELECTED NEW INDEPENDENT AUDITOR, ACCEPTABLE TO BANK. SEB'S 1972 RETURN ON NET FIXED ASSETS WAS 13.3 PERCENT. ACCOUNTS RECEIVABLE AT END 1972 WERE EQUAL TO LESS THAN TWO MONTHS ENERGY SALES. DEBT/EQUITY RATIO END 1972 WAS 24/76.

7. USADB BELIEVES PROPOSED PROJECT SOUND. INTERNAL ECONOMIC AND FINANCIAL RATES OF RETURN ESTIMATED AT 19.1 PERCENT. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

8. REQUEST KUALA LUMPUR COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972.
HAMILTON

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